

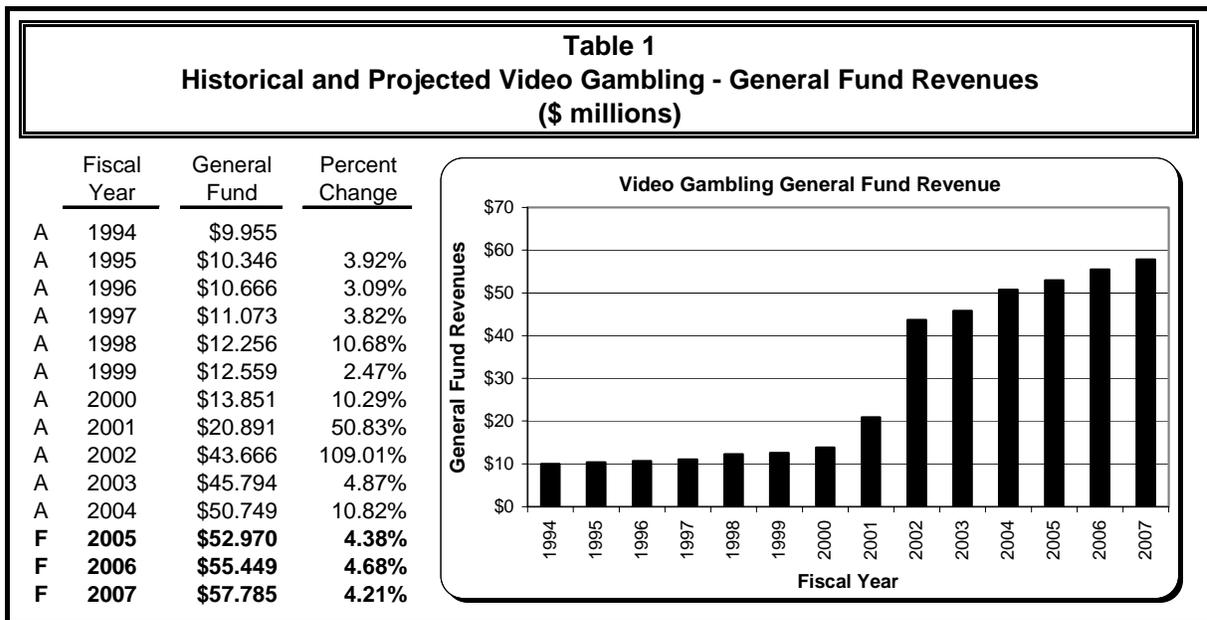
VIDEO GAMBLING TAX

Revenue Description

Section 23-5-610, MCA, establishes the video gambling machine gross income tax. It is a tax applied to the gross machine income received from video poker and keno machines. Gross machine income is the difference between total receipts from a machine minus its cash payouts. The tax rate is 15% of gross machine income. Tax collections are deposited in the state general fund.

Historical and Projected Revenue

Table 1 shows historical and projected general fund revenue from the video gambling tax for FY 1994 through FY 2007.



As Table 1 shows, general fund revenues from the video gambling tax have increased each year since FY 1994. Video gambling tax revenue is estimated to increase 4.38% in FY 2005, 4.68% in FY 2006, and 4.21% in FY 2007.

HB 124 (2001 session) changed the distribution of the video gambling tax. Prior to the fourth quarter in FY 2001, two-thirds of the tax was distributed to the county or municipal government where the machine was located, and one-third of the tax was deposited in the state general fund. Beginning with the fourth quarter in FY 2001, the tax collections are deposited in the state general fund. This change in distribution of the tax explains the large increase in general fund revenue in FY 2001 and FY 2002.

Forecast Methodology and Projected Calculation

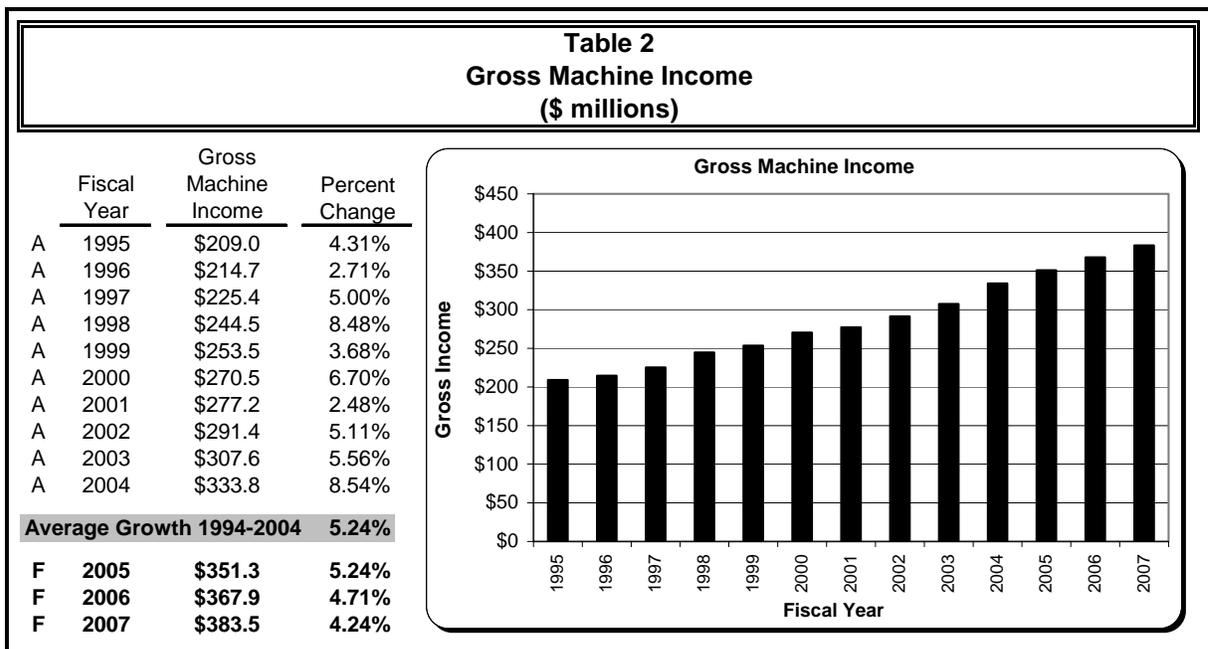
There are three steps in estimating general fund revenue from the video gambling tax: 1) forecast gross machine income; 2) forecast annual permit surcharge fees; and 3) apply the tax rate to gross machine income and add the amount of surcharge fees.

Step 1: Calculate Gross Machine Income

Gross machine income is the difference between total receipts from all video gambling machines and cash payouts. Multiplying gross machine income by the tax rate, then adding gaming surcharge fees closely approximates general fund revenue for each fiscal year. Actual general fund revenue differs slightly due to penalties assessed and refunds given by the Department of Justice. Neither penalties assessed nor refunds have a significant impact on tax collections.

Table 2 shows actual and projected gross machine income for FY 1994 through FY 2007. As Table 2 illustrates, gross machine income has increased steadily since FY 1994. The average annual change from FY 1994 to FY 2004 is 5.24%.

In FY 2004, gross machine income increased by 8.54%. The primary explanation for the higher than average growth in FY 2004 is that the gambling industry, by replacing older machines and software packages in recent years, has attracted more play. Growth in Montana's per capita income, and increased tourism due to the Lewis & Clark Bicentennial festivities are other factors that may have contributed to the higher than average growth in FY 2004.



This analysis assumes that, as the novelty of the new machines and software wears off, gross machine income will return to historical levels of growth. Gross machine income for FY 2005 is projected forward using the average annual rate from FY 1994 through FY 2004 of 5.24%. Growth in gross machine income for FY 2006 and FY 2007 is expected to be slightly lower each year, again as the novelty of new machines and software packages continues to wear off. Estimated growth in gross machine income for FY 2006 and FY 2007 is derived by taking 90% of the prior year's growth. Projected growth is 4.71% (5.24% x 90%) for FY 2006, and 4.24% (4.71% x 90%) for FY 2007.

As shown in Table 2, gross machine income is estimated at \$351.3 million in FY 2005, \$367.9 million in FY 2006, and \$383.5 million in FY 2007.

Step 2: Estimate Annual Surcharge Fee

HB 758 (2003 session) added an additional surcharge fee that is assessed on each video gambling machine. The fee is \$10 per machine for establishments having fewer than 20 machines on the premises, and \$20 on each machine for establishments that have more than 20 machines on location.

As Table 3 shows, in FY 2004 there were 20,510 active machines that paid an average \$13.32, for a total of \$273,275 dollars. For FY 2005, it is anticipated that there will be the same number of active machines and the same average tax per machine will apply as in FY 2004. The number of active machines in FY 2006 and FY 2007 is estimated to decline by 1.0 %, or 200 machines each year, due to the availability of the new multi-game software.

With the decline due to availability of the new multi-game software, it also is assumed that some establishments, which currently have at least 20 machines and pay the higher fee, will fall below the 20 machines threshold and pay the lesser fee of \$10. For purposes of this analysis, the average fee per machine also is anticipated to decrease 1.0% or about \$0.13 cents per year.

Permit surcharge fees are estimated at \$273,275 in FY 2005, \$267,837 in FY 2006, and \$262,507 in FY 2007.

Table 3			
Annual Permit Surcharge Fee			
Fiscal Year	Est. Number Machines	Est. Ave. Tax Per Machine	Total Tax
A 2004	20,510	\$13.32	\$273,275
F 2005	20,510	\$13.32	\$273,275
F 2006	20,305	\$13.19	\$267,837
F 2007	20,102	\$13.06	\$262,507

Step 3: Calculate General Fund Video Gambling Tax Revenue

Table 4 shows the general fund revenue calculation for the video gambling machine tax for FY 2004 through FY 2007. Video gambling machine income from Table 2, multiplied by the tax rate of 15% yields gross machine income tax collections. Gross machine income tax collections plus the annual surcharge fee amounts listed in Table 3, yields total general fund revenue collections.

Table 4			
Calculation of General Fund Video Gambling Tax			
FY 2004 through FY 2007			
<u>Description</u>	<u>FY 2005</u> <u>Estimated</u>	<u>FY 2006</u> <u>Estimated</u>	<u>FY 2007</u> <u>Estimated</u>
Video Gambling Income	\$351,314,191	\$367,876,307	\$383,484,926
Multiply by Tax Rate	15%	15%	15%
Gross Tax Collections	\$ 52,697,129	\$ 55,181,446	\$ 57,522,739
Add Permit Surcharge Fee	273,275	267,837	262,507
General Fund Revenue	\$ 52,970,404	\$ 55,449,283	\$ 57,785,246

General fund revenue over the forecast period is \$52.970 million for FY 2005, \$55.449 million for FY 2006, and \$57.785 million for FY 2007.